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Fact Sheet
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Social Security and Private Accounts

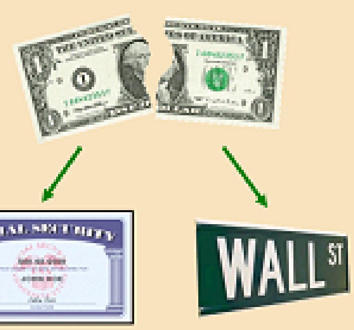
President Bush has talked quite a bit about his concerns with Social Security's fiscal future, but he has not released a legislative proposal. He has also talked a lot about private accounts, but he has not talked about how such a system of private accounts would affect Social Security's fiscal future. Based on the President's comments, materials released by the White House, and the work of his 2001 Social Security commission, we can address those and other unanswered questions.

What Happens in 2018 and 2042?
The Social Security Trust Fund has a current balance of more than $1.7 trillion, and because its current payroll tax income exceeds current benefit payments, the Trust Fund's balance is growing. President Bush often mentions 2018 and 2042 when talking about Social Security, because they are milestones in the program's long-term future.

Under current law, 2018 is the first year the Trust Fund's current payroll tax revenue will fall short of current benefit payments. The Trust Fund's balance will have grown to $5.3 trillion by then, and because the trust fund earns interest on US Government Treasury securities, its balance will continue to grow through 2028. By 2042, the Trust Fund will have been depleted. Even then, current payroll tax receipts will still be sufficient to cover 75-80% of current benefit payments.

How Would Private Accounts Affect Social Security's Solvency?
As a response to Social Security's long-term fiscal challenge, the President has proposed creating a system of private accounts. Under current law, every penny of a worker's Social Security payroll tax contribution goes into Social Security. Under a system like the one proposed by President Bush, a worker could choose to split his or her payroll tax contribution – some would still go into Social Security, but some would go to other investments.

Private Accounts Divert Social Security Dollars



Because private accounts divert Social Security revenue to Wall Street and other investments, a system like the President proposes would actually weaken the Social Security Trust Fund's solvency. Rather than reach the point when current tax revenues fall short of current benefit payments in 2018, the Trust Fund would reach that point in 2012. And rather than reach depletion in 2042, the Trust Fund would be exhausted by 2031.

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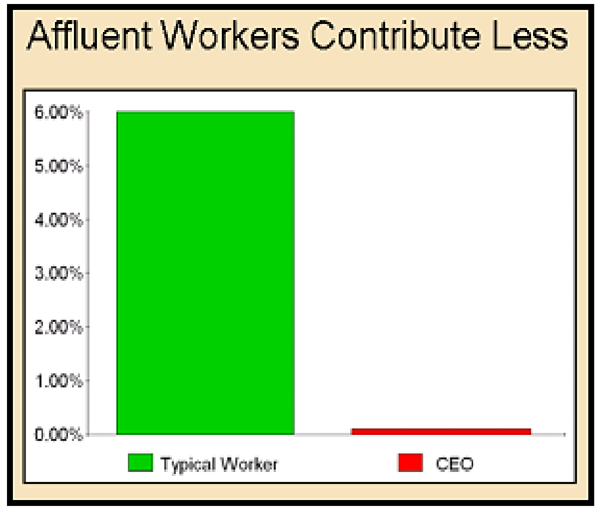
How Will the President's Plan Extend Social Security's Solvency?
There are essentially two options to strengthen Social Security's finances – put more money into the system by increasing payroll tax revenue, or take less money out of the system by cutting benefits.

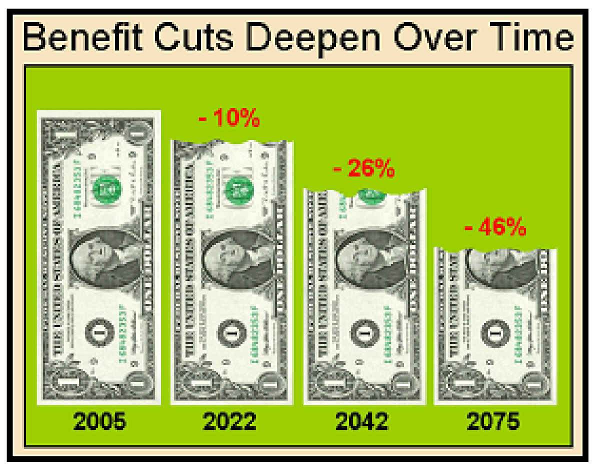
<u>The President Rejects Adding More Money</u>
Only the first $90,000 of earnings are subject to Social Security taxes under current law. Because of this "contribution cap," more affluent workers pay less into Social Security than do typical workers. In fact, a typical worker earning about $42,000 pays 60 times more (as a percent of income) into Social Security than does a CEO earning $4.2 million. Despite this fact, the President has rejected raising payroll taxes to extend Social Security's long-term solvency.



<u>The President's Plan Will Cut Benefits</u>
The President's proposal relies on benefit cuts to extend Social Security's solvency. When computing benefits under current law, workers' Social Security contributions are adjusted for the amount *wages* have increased over his career ("wage indexing"). The proposal embraced by President Bush would instead increase her contributions by the amount prices have increased ("price indexing").

Because wages have historically increased faster than prices in the U.S., price indexing would result in significant Social Security benefit cuts. For the same reason, those cuts deepen over time.

A worker who is 49 years old in 2005 and eligible to retire with full Social Security benefits in 2022 would see her benefits cut by 10%. Benefits for a worker who is now 30 and will retire in 2042 would be cut by 26%. And a baby born 3 years from now would retire in 2075 with benefits 46% lower.



What's At Stake?
Social Security is an extremely important program for the retirement security of Ohio's working families and for Ohio's economy:

- Social Security benefits more than 1.9 million Ohioans
- Without Social Security, nearly half of Ohio's seniors would live in poverty
- The average Ohio retiree's benefit is $911
- The economic impact of Social Security benefits in Ohio is $19.3 billion
- Benefit cuts like those proposed by the President would cost Ohio $8.7 billion